Holding Period for Special Access Circuits Converted to UNE
Verizon East
May 2004 through August 2004

Min	0
Max	174
Average	41

Holding Period (Months)	DS1 Circuits	Product for Computing Weighted Average
0	7	0
1	31	31
2	73	146
3	157	471
4	170	680
5	165	825
6	67	402
7	61	427
8	25	200
9	8	72
10	8	80
11	18	198
12	17	204
13	20	260
14	58	812
15	6	90
16	5	80
17	9	153
18	5	90
19	13	247
20	17	340
21	7	147
22	7	154
23	7	161
24	6	144
25	6	150
26	2	52
27	9	243
28	8	224
29	5	145
30	85	2550
31	10	310
32	8	256
33	1	33
34	1	34
38	1	38
39	1	39
42	7	294
43	12	516
44	3	132
45	13	585
47	8	376
48	2	96
49	8	392
50	3	150
51	9	459
52	3	156
53	4	212
54	14	756
55	18	990
56	24	1344
57	33	1881
58	37	2146
59	40	2360
60	58	3480
61	44	2684
62	53	3286
63	60	3780
64	66	4224
65	38	2470
66	40	2640
67	41	2747

Holding Period (Months)	DS1 Circuits	Product for Computing Weighted Average
68	39	2652
69	68	4692
70	26	1820
71	31	2201
72	25	1800
73	73	73
74	12	888
75	16	1200
76	16	1216
77	11	847
78	26	2028
79	14	1106
80	12	960
81	20	1620
82	14	1148
83	10	830
84	20	1680
85	10	850
86	14	1204
87	21	1827
88	7	616
89	3	267
90	11	990
91	3	273
92	4	368
93	8	744
94	7	658
95	2	190
96	9	864
97	3	291
98	3	294
99	6	594
101	1	101
102	3	306
103	7	721
104	1	104
105	4	420
106	5	530
108	3	324
110	3	330
111	2	222
114	2	228
115	1	115
116	2	232
122	2	244
123	1	123
124	1	124
125	2	250
128	2	256
130	1	130
131	2	262
134	1	134
135	1	135
142	1	142
146	1	146
156	1	156
162	1	162
164	1	164
172	1	172
174	1	174
Incomplete Data	80	
Grand Total	2360	

REPLY DECLARATION OF RONALD H. LATAILLE,
MARION C. JORDAN, AND JULIE K. SLATTERY

EXHIBIT 22

REDACTED – FOR PUBLIC INSPECTION

REDACTED – FOR PUBLIC INSPECTION

REPLY DECLARATION OF RONALD H. LATAILLE, MARION C. JORDAN, AND JULIE K. SLATTERY

EXHIBIT 23

REDACTED – FOR PUBLIC INSPECTION

REDACTED – FOR PUBLIC INSPECTION

REPLY DECLARATION OF RONALD H. LATAILLE, MARION C. JORDAN, AND JULIE K. SLATTERY

EXHIBIT 24

REDACTED – FOR PUBLIC INSPECTION

REDACTED – FOR PUBLIC INSPECTION

REPLY DECLARATION OF RONALD H. LATAILLE,
MARION C. JORDAN, AND JULIE K. SLATTERY

EXHIBIT 25

SPECIAL ACCESS PERFORMANCE DETAIL

	PERCENT OF FIRM ORDER CONFIRMATIONS RETURNED WITHIN INTERVAL				PERCENT OF CIRCUITS INSTALLED BY THE CONFIRMED DUE DATE				MEAN TIME TO RESTORE SERVICE (MTTR)			
	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004
VZ Total		*95.6*	*96.8*	*97.1*	*88.9*	*95.3*	*94.2*	*94.2*	*5.8*	*5.8*	*4.9*	*4.5*
Northeast		90.3	93.3	95.3	82.6	91.5	91.2	93.6	*	*	6.4	5.4
Mid Atlantic		96.3	97.5	97.6	86.8	96.2	94.8	93.3	*	*	3.9	3.8
West		97.7	98.1	97.8	95.3	97.5	96.3	96.2	*	*	4.7	4.3
New York		91.7	96.4	98.4	79.5	88.9	87.4	92.4	8.6	8.6	7.0	6.0

* For 2001 and 2002, MTTR results were not aggregated for Northeast, Mid Atlantic, and West regions.

REPLY DECLARATION OF RONALD H. LATAILLE,
MARION C. JORDAN, AND JULIE K. SLATTERY

EXHIBIT 26

REDACTED – FOR PUBLIC INSPECTION

REDACTED – FOR PUBLIC INSPECTION

REPLY DECLARATION OF RONALD H. LATAILLE,
MARION C. JORDAN, AND JULIE K. SLATTERY

EXHIBIT 27

REDACTED – FOR PUBLIC INSPECTION

REDACTED – FOR PUBLIC INSPECTION

REPLY DECLARATION OF RONALD H. LATAILLE,
MARION C. JORDAN, AND JULIE K. SLATTERY

EXHIBIT 28

REDACTED – FOR PUBLIC INSPECTION

REDACTED – FOR PUBLIC INSPECTION

REPLY DECLARATION OF RONALD H. LATAILLE, MARION C. JORDAN, AND JULIE K. SLATTERY

EXHIBIT 29

Level 3

FORM 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended **June 30, 2004**
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period to

Commission file number 0-15658

LEVEL 3 COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State of Incorporation)	**47-0210602** (I.R.S. Employer Identification No.)
1025 Eldorado Blvd., Broomfield, CO (Address of principal executive offices)	**80021** (Zip Code)

(720) 888-1000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports(s)), and (2) has been subject to such filing requirements for the past 90 days. Yes No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No o

The number of shares outstanding of each class of the issuer's common stock, as of August 2, 2004:

Common Stock: **681,883,986 shares**

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(unaudited)

(dollars in millions, except per share data)	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Revenue:				
Communications (Note 4)	$ 391	$ 430	$ 780	$ 1,135
Information Services	503	491	997	997
Coal Mining	24	16	40	32
Total revenue	918	937	1,817	2,164
Costs and Expenses (exclusive of depreciation and amortization shown separately below):				
Cost of revenue:				
Communications	119	103	200	192
Information Services	455	452	904	917
Coal Mining	17	12	30	26
Total cost of revenue	591	567	1,134	1,135
Depreciation and amortization	177	228	356	435
Selling, general and administrative	243	275	478	545
Restructuring charges	—	9	2	20
Total costs and expenses	1,011	1,079	1,970	2,135
Operating Income (Loss)	(93)	(142)	(153)	29
Other Income (Expense):				
Interest income	3	5	6	10
Interest expense, net	(118)	(143)	(245)	(283)
Other, net	146	(176)	184	(102)
Total other income (expense)	31	(314)	(55)	(375)
Loss from Continuing Operations Before Income Tax and Change in Accounting Principle	(62)	(456)	(208)	(346)
Income Tax Expense	(1)	—	(2)	—
Loss from Continuing Operations	(63)	(456)	(210)	(346)
Loss from Discontinued Operations	—	(6)	—	(2)
Net Loss Before Change in Accounting Principle	(63)	(462)	(210)	(348)
Cumulative Effect of Change in Accounting Principle	—	—	—	5
Net Loss	$ (63)	$ (462)	$ (210)	$ (343)
Earnings (Loss) per Share of Level 3 Common Stock (Basic and Diluted):				
Loss from Continuing Operations	$ (0.09)	$ (0.94)	$ (0.31)	$ (0.74)
Loss from Discontinued Operations	—	(0.01)	—	—
Cumulative Effect of Change in Accounting Principle	—	—	—	0.01
Net Loss	$ (0.09)	$ (0.95)	$ (0.31)	$ (0.73)

See accompanying notes to consolidated financial statements.

Level 3

Level 3 Reports Second Quarter Results

Reports Communications Revenue of $391 Million

New VoIP Customer Contracts Announced

Increases Investment to Support New Services
And Customer Contracts

Outstanding Debt Decreased By $230 Million

BROOMFIELD, Colo., July 28, 2004 – Level 3 Communications, Inc. (Nasdaq:LVLT) today announced its second quarter results. Consolidated revenue was $918 million for the second quarter compared to $899 million for the first quarter 2004. Communications revenue was $391 million versus $389 million for the previous quarter, and information services revenue was $503 million compared to $494 million for the previous quarter.

The net loss for the second quarter 2004 decreased to $63 million or $0.09 per share compared to a net loss for the previous quarter of $147 million or $0.22 per share. Included in the net loss for the second quarter was a $147 million gain, or $0.22 per share, associated with the elimination of $213 million in capital lease obligations due to the termination of a vendor contract. Included in the net loss for the previous quarter was a $23 million gain on the sale of the company's remaining investment in Commonwealth Telephone Enterprises, Inc. Consolidated Adjusted OIBDA(1) was $94 million in the second quarter 2004, which exceeded the projection of $80 million to $90 million and compares to $128 million for the previous quarter.

Overview

"During the second quarter, we completed the launch of our consumer-oriented VoIP services and the expansion of our IP VPN service," said James Q. Crowe, CEO of Level 3. "We also began to see increasing acceptance of these new services in the marketplace along with significant customer interest. In addition, we commenced market trials with potential customers and received several contract awards for these new services."

Second Quarter Financial Results Compared to Projections (1)

Metric ($ in millions)	Second Quarter Actuals	Second Quarter Projections (1)
Communications Services Revenue (2) (excluding termination and settlement revenue)	$363	
Reciprocal Compensation	$26	
Termination and Settlement Revenue	$2	
Communications Revenue	$391	$375-$395
Information Services Revenue	$503	
Other Revenue	$24	
Consolidated Revenue	$918	
Consolidated Adjusted OIBDA (3)(4)	**$94**	**$80-$90**
Capital Expenditures (5)	$64	$70
Unlevered Cash Flow (4)	$15	
Free Cash Flow (4)	($109)	
Communications Gross Margin (4)	70%	

(1) Projections issued April 29, 2004
(2) Communications Services Revenue is GAAP communications revenue minus reciprocal compensation revenue
(3) Consolidated Adjusted OIBDA excludes $10 million in stock-based compensation expense
(4) See schedule of non-GAAP metrics for definition and reconciliation to GAAP measures
(5) Gross capital expenditures were $66 million for the quarter and accrual reversals were $2 million

Consolidated Cash Flow and Liquidity

During the second quarter 2004, unlevered cash flow(1) was $15 million, versus $44 million during the first quarter. Consolidated free cash flow for the second quarter was negative $109 million, versus negative $40 million for the previous quarter.

As of June 30, 2004, the company had cash and marketable securities of approximately $957 million compared to $1.1

billion at March 31, 2004.

"Our consolidated free cash flow for the second quarter declined primarily due to the timing of certain of our interest expense payments and expected increases in capital expenditures associated with new service initiatives and network build-out related to previously awarded contracts," said Sunit Patel, CFO of Level 3. "Additionally, as a result of the acquisition of ICG's managed modem business and the termination of certain vendor agreements, we saw an increase in network expenses related to the integration of the ICG and Allegiance dial-up networks. We expect to see the benefits of these expenditures in future periods."

Communications Business

Revenue

Communications revenue for the second quarter 2004 was $391 million, versus $389 million for the previous quarter. Total communications revenue for the second quarter consisted of $365 million of communications services revenue and $26 million of reciprocal compensation revenue, compared to $366 million and $23 million in the first quarter.

Included in communications services revenue was $2 million and $7 million of settlement and termination revenue for the second and first quarters, respectively. Communications services revenue, excluding settlement and termination revenue, increased by $4 million quarter over quarter.

This increase is primarily due to additional managed modem revenue from the ICG acquisition completed during the second quarter, partially offset by expected declines in the company's existing managed modem business.

The communications deferred revenue balance increased by $2 million during the quarter.

Cost of Revenue

Communications cost of revenue for the second quarter was $119 million versus $81 million for the previous quarter. Communications gross margin(1) was 70 percent for the second quarter compared to 79 percent in the first quarter. Communications cost of revenue increased in the second quarter primarily due to expected increases in network expenses associated with the ICG acquisition, and the termination and renegotiation of vendor agreements with Allegiance and KMC Telecom. In addition, the completion of the Genuity migration in the second quarter resulted in higher than expected network expenses in the second quarter. The Genuity integration is now substantially complete and as a result, no additional expenses associated with this acquisition are expected.

As a result of the contract termination with Allegiance, the company assumed a network contract obligation with KMC. This contract was subsequently renegotiated in the second quarter, which resulted in a payment obligation of $10 million to KMC. This obligation is being paid over the course of 2004, and recognized as cost of revenue. As a result of this renegotiation, the company expects to migrate this traffic to its network by the end of the year, with corresponding improvements in gross margin.

"While the ICG, Allegiance and KMC transactions have a short-term negative effect on gross margins and result in the use of cash, we believe the longer-term benefits from these transactions will be substantial," said Kevin O'Hara, president and COO of Level 3. "We have successfully begun the network migration for the previously announced ICG and Allegiance transactions, and expect to complete these activities over the balance of the year.

Selling, General and Administrative Expenses (SG&A)

Communications SG&A expenses were $202 million for the second quarter, versus $201 million for the previous quarter. For both periods, communications SG&A expenses include $9 million of non-cash stock compensation expense.

The total number of employees in the communications business increased to approximately 3,500 during the second quarter from approximately 3,380 in the first quarter.

Adjusted Operating Income Before Depreciation and Amortization (OIBDA)

Adjusted OIBDA(1) for the communications business decreased to $79 million for the second quarter from $116 million for the previous quarter. Communications Adjusted OIBDA margin(1) was 20 percent for the second quarter versus 30 percent in the previous quarter. This decrease in Communications Adjusted OIBDA was primarily the result of the expected increase in network expenses as previously described.

Communications Adjusted OIBDA for the second and first quarter excludes $9 million in non-cash stock compensation expense.

Information Services Business

Results for the information services business include the Software Spectrum and (i)Structure subsidiaries.

Revenue and Adjusted Operating Income before Depreciation and Amortization (OIBDA)

Information services revenue was $503 million for the second quarter. This compares to revenue of $494 million for the previous quarter, which included $4 million of termination revenue at (i)Structure, and $491 million for the same period last year.

Adjusted OIBDA(1) for the information services business was $11 million for the second quarter, which excludes $1 million in non-cash stock compensation expense, compared to $11 million for the previous quarter, which included $2 million in restructuring charges.

"I am pleased with the second quarter performance of the information services business," said Charles C. Miller, vice chairman of Level 3. "The strong revenue performance of our information services business reflects the continued strength in the global software market and the benefit of normal seasonal effects. Additionally, our improving margins are a testament to the success of our ongoing cost optimization efforts, which we began last year."

The total number of employees in the information services business decreased to approximately 1,300 at the end of the second quarter from approximately 1,310 at the end of the previous quarter.

Other Businesses
The company's other businesses consist primarily of coal mining operations.

Revenue and Adjusted OIBDA
Revenue and Adjusted OIBDA(1) from other businesses were $24 million and $4 million in the second quarter compared to $16 million and $1 million for the previous quarter.

Debt Reduction
As a result of the company's termination of its vendor agreement with Allegiance and principal payments on capital leases during the second quarter, capital lease obligations decreased by approximately $245 million during the second quarter.

New Customer Agreements and Service Offerings
"Level 3 has been focused on the successful launch of several new service offerings in 2004, particularly VoIP and IP-based data networking services, which leverage our existing network and increase our addressable market," said O'Hara. "I am pleased that during the second quarter, we began to see early customer acceptance, revenue growth and corresponding network usage increases from these new services.

"The company has recently announced new customer agreements with AOL's Moviefone, Intelsat, Net2Phone, Skype, Tiscali, Teliris and 8x8. The company has seen substantial activity including market trials and contract awards with cable companies, local exchange carriers, long-haul carriers, systems integrators, ISPs, VARs and enhanced service providers. While these contracts were not individually disclosed at the request of the customer, they collectively represent significant opportunities over time."

"Our customers are choosing Level 3 as a provider of VoIP services because of our extensive local infrastructure, our IP network coverage and our softswitch leadership," said O'Hara. "We are pleased that two of our VoIP services, (3)VoIPSM Local Inbound and (3)ToneSM Business, received notable industry awards this quarter that underscore our role as a recognized leader in VoIP innovation and network design."

Softswitch Services
During the quarter, the company announced two new consumer VoIP services aimed at cable operators, enhanced service providers, ISPs, IXCs and others who provide residential voice services to end-users.

(3)VoIP EnhancedSM Local service is targeted towards customers who currently operate their own switching infrastructure, but want to deploy residential voice services cost effectively with minimal involvement in local interconnection issues.

The service gives VoIP providers the flexibility to select from a number of functionalities, including: local and long distance calling, access to the traditional telephone network (PSTN), local phone numbers, operator assistance, directory listings, E911 emergency and local number portability.

HomeToneSM is a turnkey VoIP residential service offering local and long distance capabilities. Along with the features of (3) VoIP Enhanced Local service, HomeTone service also includes additional features such as voice mail, call waiting, caller ID, three-way conferencing, and end-user Web-based account management.

IP & Data Services
During the second quarter, the company expanded its offering of data networking services, including (3)FlexSM Network IP VPN, to channel partners and value added resellers in the U.S. and Europe. Additionally, Level 3 expanded its wide-area Ethernet, ATM and Frame Relay data networking offerings by adding new lower speed data services.

Business Outlook
Revenue
"Given our performance for the year so far and the progress we have made in launching our new services, we are confident that we can meet or exceed our previously issued projection for communications revenue, excluding termination revenue, of a high single-digit percent decline in 2004 versus 2003," said Crowe.

Adjusted OIBDA
"We are reaffirming our previously issued projection for Consolidated Adjusted OIBDA for 2004. This projection was that 2004 Consolidated Adjusted OIBDA, excluding termination and settlement revenue, will be consistent with 2003.

"As a result of slightly higher than expected network expenses from the ICG and Allegiance transactions, as well as the additional expenses associated with the KMC transaction that was completed during the quarter, and an acceleration of the timing of all three integrations, we expect Communications Adjusted OIBDA margins for the full year 2004 to be in the mid-20 percent range, a reduction versus our previously issued projections of high-20 percent range."

"While these managed modem transactions put short-term pressure on our communications margins, the longer-term benefits of improved cash flow, network reliability and customer service that will result from the migration of this traffic onto